



EHLERS
& ASSOCIATES INC

November 1, 2004

Mr. Keith Rake
Deputy Assistant Commissioner
Bureau of the Public Debt
Department of the Treasury
P.O. Box 396
Parkersburg, WV 26101-0396

RE: Docket Number BPD-02-04

We offer the following comments regarding the proposed changes in the regulations regarding State and Local Government Series (SLGS) securities, 31 CFR Part 344.

Background

Ehlers & Associates is an independent financial advisory firm, providing services to local governments in Minnesota, Wisconsin, and Illinois. We have considerable experience with the SLGS program. We conduct competitive sales of hundreds of bond issues every year, including an average of 60 to 80 refunding bond issues each year. We advise our clients to use SLGS to fund the advance refunding escrows for virtually all of the advance refunding escrows in which we are involved, and we order and process the SLGS on behalf of our clients. We also assist our clients in using SLGS for short-term investment of bond proceeds in many current refundings.

In general, we believe the current SLGS program has been highly beneficial to our clients. We also believe it has been beneficial to the Treasury. And we believe that all parties will continue to benefit by maintaining or increasing the level of usage of the SLGS program.

When planning a refunding issue and discussing investment options with our clients, we cite several advantages of the SLGS program, including the unparalleled safety of treasury securities, the ease of use, the flexibility of the program, and the efficiency of SLGS. We often tell our clients that there may be higher yielding investments (open market treasuries, agencies, or guaranteed investment contracts), but that these investments don't have some of the other benefits of SLGS. Furthermore, we tell them that the options currently available with SLGS – especially the option to cancel an order and reorder at a higher yield prior to closing – may offset the higher yields available with other investment options.

In short, the flexibility of the current SLGS rules creates incentives for local governments to use the program. In general, we believe this is beneficial to both local governments and the Treasury.

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We understand the rationale for most of the changes being proposed, and we support many of the changes. We are concerned, however, that some aspects of the rules will make SLGS less attractive to local governments than other options, and will lead to decreased use of the program.

Suggested Changes

We suggest changes to four aspects of the proposed new rules, as summarized below. These changes are intended to preserve more of the benefits of SLGS to local governments, while still accomplishing most of Treasury's goals.

- 1. Canceling and Resubscribing Prior to Closing.** The proposed regulations would prohibit subscribers from canceling and resubscribing at a higher rate. We believe that this option currently provides a valuable incentive for governments to use SLGS. We would like to see the option retained in a form that preserves at least some incentive, while limiting the cost to the Treasury. We would suggest two options that might accomplish this goal.
 - a. The regulations could put a limit of two or three times that an issuer could cancel and reorder on the same subscription.
 - b. The regulations could put a limit (e.g., 20 basis points) on the increase in rates from the initial subscription to the final subscription.
- 2. Limiting Sources of Funds for Purchases to Proceeds of an Issue.** The proposed change would limit funds used to purchase SLGS to gross bond proceeds only. There are many circumstances in which we advise our clients to use other funds in combination with bond proceeds to purchase SLGS for a refunding, either because of legal requirements or because it is in our clients' best interests. Examples of such funds include unreserved debt service fund balances, capitalized interest funds, and debt service reserve funds. If the purchase of SLGS is limited to gross bond proceeds only, we will then need to split the investments for a refunding escrow, and invest funds from other sources in open market securities. This would be much more inefficient and cumbersome for issuers. We recommend that the proposed regulations be changed to allow use of other funds, as described above, to purchase SLGS.
- 3. Changing the Aggregate Principal Amount.** The proposed regulations would limit changes in the principal amount of SLGS purchases to ten percent. This would make it more difficult for us to plan a single refunding of multiple existing bond issues. We can limit issuance costs for our clients by combining several existing issues into a single refunding. If market conditions change significantly between publishing of the preliminary official statement and the day of sale, one of the issues may no longer satisfy our savings requirements. When this happens, that portion of the refunding is not included. Conversely, a dramatic improvement in market conditions may make it possible to include an existing issue in a refunding at the last minute. In either of these cases, the principal amount of SLGS needed for the refunding may change by more than ten percent. If we are limited to a ten percent change in the SLGS principal amount, we

may have to schedule separate refundings for each existing issue, thereby increasing costs to our issuers and their taxpayers. We recommend that the regulations be changed to allow changes of more than ten percent in the circumstances described above.

- 4. Changing the Issue Date.** The proposed regulations would prohibit changes in the issue date after the initial subscription. There are several circumstances in which the existing allowance for a seven-day extension has been beneficial to our clients. First, local governments sometimes cancel or postpone meetings at which a bond sale award is scheduled, causing us to postpone the date of sale and closing by a week or more. Second, there are circumstances in which none of the competitive proposals we receive for a refunding bond sale would satisfy minimum savings requirements, but in which we are able to negotiate a satisfactory proposal within a few weeks of the originally scheduled sale date; this may cause us to push the closing date back slightly. Because of these circumstances, we recommend that the option for a seven-day extension in current regulations be preserved.

Summary

We are highly supportive of the SLGS program, and we greatly appreciate the Treasury's efforts to make the program so useful and beneficial to state and local governments. We also understand the rationale for the proposed changes, and we support many of the changes. However, we believe the suggestions made above would help to preserve some of the most important benefits that serve as incentives for governments to use the SLGS program.

Sincerely,

Ehlers & Associates, Inc.